

STREETS, HIGHWAY, AND SIDEWALK FINANCE RECOMMENDATIONS

Finance Work Group

Updated Work-In-Progress Discussion Draft – April 18, 2003

General Statement of Intent

The ability of the community's street and highway system to handle projected future vehicular travel needs is critical to the long term social and economic viability of the City of Lincoln. The City's adopted Comprehensive Plan and Long Range Transportation Plan (LRTP) defines a planned system of twenty five urban roadway facility improvements that supports the continued maintenance and needed expansion of the City's street network.

The City's Capital Improvement Program (CIP) for streets and highways should advance the urban growth set forth in Lincoln's adopted Comprehensive Plan. The Finance Work Group has designed a recommended approach for financing the Comprehensive Plan's roadway program using a combination of existing funding sources and other proposed financing alternatives including bonds, enhanced fees, and new user taxes.

Long Term Funding Needs

One of the initial tasks of the Finance Work Group was to closely examine the realistic funding needs for Lincoln's streets and highway program. This task involved an in-depth dialogue regarding the trends and uses of existing street funding sources, as well as the program of projects contained in the adopted Comprehensive Plan and LRTP.

The Work Group focused on the initial 12 years of the Comprehensive Plan's growth and development picture, with priority on ensuring quality street and highway facilities to the existing Lincoln community and to the "Priority Area A" within the Tier I Growth area.

While this task was being completed, the Cost Savings and Efficiency Work Group was also undertaking a separate but complementary initiative. The Cost Savings and Efficiency Work Group was looking at options for reducing overall street construction costs and for scheduling future street construction so as to maximize existing street resources.

By applying the cost savings approaches identified by the Cost Savings and Efficiency Work Group and an assumed prioritized schedule for the phasing-in of improvements, the "financing gap" for street and highways construction over the next twelve years was placed at between \$200

and \$250 million. While potential inflationary impacts and other changes in the roadway construction program will also need to be taken into consideration, the Finance Work Group identified the amount of \$225 million as their goal for the additional funding needed for streets and highways over the next twelve years.

~~Because of the desire to “catch up” on street construction projects that have been deferred in the past in part because of limited funding,~~ The Finance Work Group also concluded that the greatest financing gap for streets occurs early-on in the 12 year capital improvements programming. Early period funding needs require raising capital resources quickly so that these street projects can be initiated and completed over the next six to ten years. Notable among the construction activities included during this early period are the Antelope Valley and South Beltway projects.

Maintaining the City’s Existing Streets and Highways Infrastructure

As the City grows in both population and geographic size, it is imperative the community’s current investment in streets and highways be maintained. In Mayor Wesely’s *Charge to the Committee* to seek a “balanced funding approach” for infrastructure financing, the maintenance of the City’s existing roadway system was given primary consideration – that is, maintenance of the existing street investment was to be viewed as first among all other proposed activities.

Upon examining this issue, the Finance Work Group concluded that the City does not have a well-defined program for street maintenance. Most of the maintenance is carried out on a fiscally constrained basis on the City’s approximately 1245 mile network of streets, including 323 miles of arterials street and 922 miles of residential streets. During the 1990's, some roadway funds were diverted from street maintenance and directed toward new road construction -- Mayor Wesely has reversed this trend. Spending on street repair and maintenance has generally been increased to around \$7 to \$8 million per year. The City should work to increased funding for street maintenance so that arterial streets are resurfaced on average about every 15 years and residential streets are resurfaced on average about every 30 years.

The City’s Public Works Department is proposing to adopt a new street inventorying system to survey all Lincoln streets on an annual basis to provide a rating of their condition. This system would be similar to the one used by the State of Nebraska for their highway system. Ratings of “very good,” “good,” “fair,” and “poor” would be assigned to each street segment based on specific criteria.

This inventory system will allow the City to track the overall condition of streets throughout the community and assess if the present maintenance program is adequate. The Finance Work Group feels that a well disciplined program is needed so that periodic surveys of street conditions can be performed and a determination made regarding the adequacy of the street maintenance program.

The Finance Work Group recommends the City adopt a well disciplined program of periodically assessing street conditions and of allocating sufficient funding to maintain adequate street conditions.

At least biannually, the Public Works Department should report of the Mayor and City Council on the condition of area streets and on changes needed to maintain the quality of Lincoln's roadway infrastructure. Adjustments may be needed in the street budget allocations to ensure that existing streets are adequately maintained.

South and East Beltways

The proposed South and East Beltways are essential components of the City's overall regional transportation system. In cooperative agreement between the City of Lincoln, Lancaster County, the Nebraska Department of Roads and the Federal Highway Administration, the beltway system – when fully constructed – will offer a complete circumferential high capacity roadway around the urban area. This will aid in moving traffic around the city and improve the flow of traffic on the existing urban street network.

Of the two proposed projects, the community and its partners have given the South Beltway the higher near term priority. The South Beltway will link Nebraska Highway 77 on the west with Nebraska Highway 2 on the east. The South Beltway will be located approximately a half mile south of Saltillo Road and will touch the City's future urban service limit along its western edge. When completed, the South Beltway will also become Nebraska Highway 2, with the existing Highway 2 turned over to the City as in internal roadway.

The total estimated cost for the South Beltway is \$120 million. The cost of this facility will be split between City, State, and Federal governments. The cost sharing for the South Beltway is set at 80 percent Federal/State and 20 percent local. The local share is programmed as part of the overall funding projected for the twelve year analysis period assumed by the Finance Work Group.

Antelope Valley Project

The Antelope Valley Project comprises a mixture of roadway, stormwater management, and community revitalization activities within the heart of Lincoln. The project brings together a consortium of public entities, including the City of Lincoln, the Lower Platte South Natural Resources District, and the University of Nebraska-Lincoln.

The roadway component of the project involves a multi-lane boulevard along the eastern edge of the Downtown area. Phase I of the project has already begun with the initial construction of the stormwater control channel. The total estimated cost for the complete Antelope Valley project is approximately \$223 million, with about \$123 million going toward new roadways and improvements to existing streets.

Funding for the roadway component of the Project is anticipated to be drawn from several sources. The City is looking to use its available Federal gas tax monies (TEA-21) and its share of State gas tax monies (State Road Funds) in meeting its funding obligations. Federal road demonstration funds are also being sought to support the construction of the roadway facilities and associated enhancements.

Existing Funding Sources

The City Public Works Department projects that if funding sources continue at present levels Lincoln will garner about half a billion dollars for street maintenance, rehabilitation, and construction over the next 12 years – not including specially earmarked Federal funds for projects such as the Beltways and Antelope Valley.

For purposes of the funding needs analysis, the Finance Work Group assumed that this projected half billion dollars in street and highway funds would come from the following nine sources:

- ☐ Highway Allocation Funds
- ☐ Federal Urban Area Project Funds
- ☐ City Wheel Tax Residual [Maintenance, rehabilitation , & construction]
- ☐ City Wheel Tax New Construction
- ☐ State Train Mile Tax
- ☐ Railroad Transportation Safety District
- ☐ Transportation Enhancement
- ☐ Impact Fees
- ☐ Other Funds

It should be noted that many of these funds have limitations concerning where and how they can be applied. Certain railroad funds, for example, can only go toward projects eliminating unsafe conditions involving trains and vehicles. Similarly, impact fees funds can only be used in certain locations and for specific street construction activities.

Recommended Funding Approach

The Finance Work Group recognizes that projected revenues are insufficient over the next 12 years for maintaining, rehabilitating, and expanding the City's streets and highway system called for in the adopted Comprehensive Plan.

In arriving at this conclusion the Finance Work Group's did rely upon the street and highway cost savings identified by the Cost Savings and Efficiency Work Group. The Finance Work Group believes that the City should pursue the cost reductions identified by the Cost Savings and Efficiency Work Group. Implementing these recommendations could potentially result in the savings or near term deferral of millions of dollars in project costs that will not impair the long term viability of the City's street system.

The Finance Work Group recognizes, however, that additional locally generated funds are needed to meet the City's long term street and highway requirements – especially over the next twelve year period.

The Finance Work Group reviewed a host of possible funding options. As part of their review, they established a series of criteria to be used in evaluating possible funding alternatives. **To the extent feasible, alternatives were sought that could generally met these criteria:**

- ✘ User Fee Based – The fees (or taxes) paid to support infrastructure expansion and maintenance should come from those individuals or companies using the infrastructure system or service.
- ✘ Deductibility – The fees or taxes derived from the funding source should be deductible from an individual's Federal and State income tax obligation.
- ✘ Ease of Approval – The fees or taxes should be relatively easy to put into place because the City is already authorized to do so.

- ✘ Broadly Based – The fees or taxes should be paid by a wide range of users, including non-Lincoln residents who may be using the infrastructure system.
- ✘ Application Ease – The collection and enforcement system necessary to collect the fees or taxes should be in place or easy to establish.
- ✘ Stability of Source – The fees or taxes should provide a predictable and steady revenue stream for the City.
- ✘ Progressive Tax/Fee - The fees or taxes should be “progressive” in nature (as contrasted to a “regressive” fee or tax that tends to be a greater imposition on lower income households.)
- ✘ Bondable – The fees or taxes should provide a revenue stream that can be used for paying off bonds.
- ✘ Amount of Revenue – The fees or taxes should provide the potential for generating a relatively significant sum of revenue.
- ✘ Public Policy – The fees or taxes should be politically acceptable to the community and elected officials, and be easy to understand.

After a careful and diligent consideration of numerous options, **the Finance Work Group recommends the follow strategy for meeting the demand for additional street funding:**

- Increase Existing City Wheel Tax – *The Finance Work Group recommends that the present City Wheel Tax be increased incrementally over a 7 year period. Three increases of \$5 each should be approved for implementation in calendar years 2004, 2007, and 2010.* This would raise the City Wheel Tax for the typical passenger vehicle from \$39 per year to \$54 per year. Each \$5/vehicle increase in the Wheel Tax is estimated to result in an additional \$1 million in revenue. The increases recommended by the Finance Work Group are projected to bring in approximately \$29.8 million over the next twelve years.
- Institute an Occupation Tax on the Retail Sale of Fuel – *The Finance Work Group recommends the City approve an occupation tax on the sale of vehicular fuel at the retail level.* The City is authorized to impose this tax under current statutes following appropriate City Council and Mayoral action. *The Finance*

Work Group recommends that the tax be equivalent to 5 cents per gallon and become effective January 1, 2004. The projected revenues from this source (at 5 cents per gallon) are approximately \$7.5 million per year, or about \$92.1 million over the next twelve years.

- Work to Meet the Sidewalk Maintenance Needs of the City's Established Neighborhoods – *The Finance Work Group recommends that the City's infrastructure financing strategy include funding for sidewalk maintenance in established Lincoln neighborhoods.* Sidewalks are an important element of the City's overall transportation system. In many older areas of the community, sidewalks have fallen into disrepair. The City funds necessary to support the much needed maintenance of these facilities are simply not available. The present funding levels for sidewalk maintenance falls substantially short of the need. Bonding is an appropriate and timely means for financing sidewalk improvements in these areas of Lincoln and should be part of an overall General Obligation bond package presented to the voters.

- Seek Voter Approval for a General Obligation (G.O.) Bond – *The Finance Work Group recommends the City seek voter approval for the issuance of a series of General Obligation (G.O.) Bonds totaling approximately \$98.5million.* The proceeds from these bonds would be dedicated to street construction and sidewalk maintenance projects called for in the adopted Comprehensive Plan. These projects support further urban expansion, as well as enhancing the existing street and sidewalk networks. The Finance Work Group recommends that voter approval for these bonds be sought as quickly as can be reasonably accommodated under the current election cycle. Furthermore, the timing of the requested voter approval should take into consideration potential bond requests from other local governmental entities, particularly the Lincoln Public Schools.

While City staff is prohibited from directly promoting voter approval of such bonds, a separate marketing effort involving private entities should be actively pursued. This effort should underscore the importance of a quality street and highway system to the community's economic development objectives and the long term viability of existing neighborhoods.

- Utilize Highway Allocation Bonds – *The Finance Work Group recommends the prudent use of "Highway Allocation Bonds" to advance the construction of needed street improvements and to effectively manage the City's funding stream for road build.*

“Highway Allocation Bonds” are currently authorized under State statute for use by Nebraska communities to fund the construction of streets. The bonds themselves do not represent a new revenue source -- rather they allow communities to pledge future revenue streams by issuing bonds which can then be used build roads in advance of when they might otherwise be constructed. Highway Allocation Bonds can be paid off from various Federal and State funds which the City receives annually, and from locally generated revenues such as the Wheel Tax or proposed Occupation Fuel Tax. The bonds are not considered to be “revenue bonds” as they bear the full faith and credit of the City. Highway Allocation Bonds offer an effective means for managing the funding stream for road building and for advancing the construction of needed street and highway improvements.

Secondary Funding Approach

The Finance Work Group recognizes that the imposition of additional fees and taxes is not always popular nor politically attainable. It is possible that one or more of the Finance Work Group recommendations described above will not be approved. In this event, the Finance Work Group recommends the following additional actions by the Mayor and City Council:

- Continue to Seek General Obligation Bond Approval – In the event that the General Obligation Bond initiative is not approved by the voters on the first attempt, the Finance Work Group believes the City should consider a second effort to gain electorate acceptance. The G.O. Bond approach offers a significant funding source for streets projects that can be used for projects benefitting the broad community. Elected officials should of course determine the merits of a second attempt at vote approval based on the results of the initial election. However, the Finance Work Group believes voter endorsement should continue to be sought even if initial voter approval is not obtained.
- Explore Options for Instituting a Streets-Dedicated Sales Tax – The City of Lincoln can only impose such taxes as authorized by the State of Nebraska. The City currently has State authorization for a one and a half cent general sales tax on retail goods. Should the street funding sources noted above not gain approval, the Finance Work Group recommends that the City work with the State and other Nebraska municipalities to allow for the establishment of a local retail sales tax with the proceeds to be used for street and highway projects. This will require

approval by the Nebraska Unicameral and Governor, and would likely require a vote of the City electorate to allow for its imposition.

Continuity in Maintaining and Presenting Information

The Mayor's Infrastructure Finance Study process has produced a vast inventory of valuable information about the City's infrastructure and how it is financed. Care has been taken to establish common data formats and terminology so that the information about complex infrastructure system are made more understandable.

Efforts should be made to retain such formats and terms in future City-produced reports, and to utilize them in monitoring trends in financing and developing city infrastructure. Specifically these should include:

- The Public Works and Utilities staff should continue to utilize a 12 year format in forecasting future capital facility and funding needs.
- The Public Works and Utilities's 12 year forecasts should be updated annually and utilized as part of the City's overall Comprehensive Plan and Capital Improvements Program processes.
- The Public Works and Utilities's 12 year forecasts should continue to utilize the "Uses" and "Funding Sources" formats.
- Preparation and updating of the 12 year forecasts by the Public Works and Utilities Department should reflect the Comprehensive Plan phasing plan and related Plan elements.

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